

Message Text

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DRAFTED BY TREASURY: MS. SEYMOUR:LEE
APPROVED BY ARA - MR. AR-LLANO
EB - MR. KATZ
ARA/AND - MR. BARNEBEY
TREASURY - MR. LEDDY

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E.O. 11652: GDS

TAGS:EFIN, PINT, BL

SUBJECT: VISIT OF BOLIVIAN FINANCE MINISTER

REFS: (A) LA PAZ 1101; (0) LA PAZ 1102

1. ON FEBRUARY 10, BOLIVIAN FINANCE MINISTER DAVID BLANCO AND BOLIVIAN SUB-SECRETARY OF PLANNING GARCIA MET WITH TREASURY UNDER SECRETARY SOLOMON AND EB ASSISTANT SECRETARY KATZ. THE PURPOSE OF THE MEETING, REQUESTED BY THE BOLIVIANS, WAS TO PRESENT AN OVERVIEW OF CURRENT BOLIVIAN ECONOMIC PROBLEMS AND TO SEEK FINANCIAL ASSISTANCE FROM THE USG.

2. ECONOMIC SITUATION: FINANCE MINISTER BLANCO PAINTED A SOMEWHAT UPBEAT PICTURE OF THE CURRENT ECONOMIC SITUATION BUT CONTENDED THAT BOLIVIA'S FUTURE ECONOMIC OUTLOOK IS CONFIDENTIAL

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NOT BRIGHT. THE GOB IS PROJECTING AN OVERALL BALANCE OF PAYMENTS DEFICIT OF \$70 MILLION IN 1978 TO BE FINANCED BY DRAWING DOWN INTERNATIONAL RESERVES. THIS ESTIMATE IS BASED ON EXPECTED CAPITAL FLIGHT TOTALLING 040-50 MILLION. TH: GOB BELIEVES THAT IT WILL NOT BE ABLE TO INSTITUTE A STRICT WAGE AND PRICE POLICY THIS YEAR BECAUSE OF THE POLITICAL SITUATION ALTHOUGH THIS COULD HELP CURTAIL THE

BOP DEFICIT. DEVALUATION WILL NOT BE CONSIDERED.

3. IMF STAND-BY: THE GOB IS NOT CONSIDERING AN IMF STAND-BY AT THIS TIME SINCE THEY BELIEVE AUSTERITY MEASURES ARE UNFEASIBLE IN THE PRE-ELECTORAL PERIOD. THE FINANCE MINISTER EXPLAINED THAT AN IMF PROGRAM IS NOT OPERABLE AT THIS TIME BECAUSE: 1) AN IMF MISSION WOULD CAUSE ADDITIONAL CAPITAL FLIGHT BECAUSE OF THE IMAGE THAT THE IMF HAS IN BOLIVIA; 2) AN IMF PROGRAM WOULD REQUIRE THE GOB TO INCREASE GASOLINE PRICES AND THIS IS NOT NOW POLITICALLY FEASIBLE; 3) THERE IS CONSIDERABLE PREJUDICE AGAINST THE IMF IN BOLIVIA. NEGOTIATIONS ON A LONG-TERM STABILIZATION PROGRAM MAY BEGIN IN SEPTEMBER.

4. ESF REQUEST: UNDER SECRETARY SOLOMON EXPLAINED THAT BOLIVIA IS NOT ELIGIBLE FOR AN ESF LINE GIVEN THE STRICT LEGISLATIVE REQUIREMENTS GOVERNING USE OF ESF. THE 1976 ESF LEGISLATION CIRCUMSCRIBED US FREEDOM ON USE OF THE ESF. THE ESF MUST BE USED CONSISTENTLY WITH US OBLIGATIONS IN THE IMF, AND IN PRACTICE, THE US TIES ESF CREDIT TO AN IMF PROGRAM. THE MAXIMUM MATURITY DATE ON AN OUTSTANDING LINE IS SIX MONTHS AND CONGRESS MUST BE CONSULTED ON POSSIBLE USE OF THE ESF. SINCE BOLIVIA IS NOT EVEN CONSIDERING AN IMF AGREEMENT, THERE IS IN PRACTICE NO WAY THAT AN ESF LINE COULD BE JUSTIFIED. CONFIDENTIAL

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5. BILATERAL SUPPORT: ASSISTANT SECRETARY KATZ INDICATED THAT THERE MIGHT BE A POSSIBILITY OF ADDITIONAL SUPPORT THROUGH THE PL-480 PROGRAM CONTINGENT UPON NORMAL PROGRAM REQUIREMENTS. THAT IS, THE BOLIVIAN ECONOMY MUST BE ABLE TO ABSORB THE ADDITIONAL SUPPORT, AND THE PROGRAM CANNOT DISPLACE COMMERCIAL ARRANGEMENTS. A PL-480 TITLE III PROGRAM MIGHT PROVIDE AN OPPORTUNITY FOR ADDITIONAL SUPPORT WITH SOME FLEXIBILITY. SINCE TITLE III IS A NEW PROGRAM, IT MIGHT NOT BE IN PLACE IN TIME TO HELP BOLIVIA THROUGH ITS CURRENT ECONOMIC SITUATION. THE ASSISTANT SECRETARY PROMISED TO LOOK INTO THE POSSIBILITY OF ADDITIONAL SUPPORT THROUGH BOTH TITLE I AND TITLE III AND REPORT ON HIS FINDS THROUGH AMBASSADOR BOEKER.

6. COMMENT: AS A FOLLOW-UP TO THE FINANCE MINISTER'S VISIT, WOULD YOU PROVIDE ADDITIONAL ANALYSIS ON BOLIVIA'S BOP SITUATION FOR 1978? YOUR PREVIOUS ANALYSIS (REF 1101) WAS DETAILED, WELL-THOUGHT-OUT AND TIMELY ARRIVING JUST PRIOR TO THE FINANCE MINISTER'S MEETING IN WASHINGTON. THERE SEEMS TO BE A SIZABLE DIFFERENCE BETWEEN THE US

EMBASSY, THE IMF AND THE FINANCE MINISTER'S PROJECTIONS
OF THE OVERALL BALANCE OF PAYMENTS SITUATION. THE DIF-

FERENCES ARE BASED ON ALTERNATIVE ASSUMPTIONS RELATED
TO STABILIZATION MEASURES THE GOB WOULD BE ABLE TO
UNDERTAKE.

7. YOU INDICATED THAT THE GOB WOULD NOT BE ABLE TO
TAKE ANY OF THE MEASURES NECESSARY TO CURTAIL THE BOP
DEFICITS INCLUDING: DEVALUATION, IMPORT CONTROLS,
LIMITING WAGE INCREASES OR INCREASING HYDROCARBON
PRICES. OBVIOUSLY, THE STEPS THAT THE GOB CAN TAKE
TOWARDS ECONOMIC STABILITY WILL BE LIMITED BY POLITICAL
CONSIDERATIONS. IT SEEMS THAT FINANCIAL CONSTRAINTS
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WILL MAKE IMPOSITION OF SOME AUSTERITY MEASURES NECESSARY.
COULD YOU COMMENT ON WHAT AUSTERITY MEASURES THE GOB
MIGHT BE ABLE TO INSTITUTE AND THE IMPACT OF THESE
MEASURES ON THE BOP SITUATION? FOR EXAMPLE, WHAT WOULD
BOLIVIA'S BOP LOOK LIKE FOR 1978 IF THE GOB LIMITED THE
AMOUNT OF FOREIGN EXCHANGE AVAILABLE FOR IMPORTS? VANCE

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